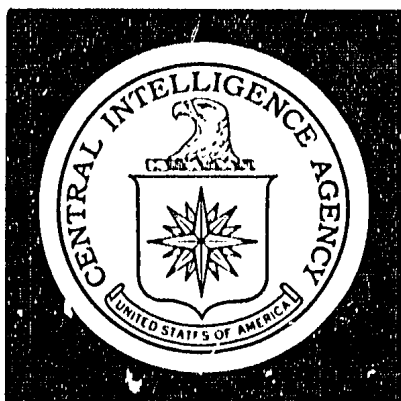


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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

THE EUROPEAN COMMUNITY AND THE EUROPEAN NEUTRALS

State Dept. review completed

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
8 January 1971

## INTELLIGENCE MEMORANDUM

The European Community and the European NeutralsSummary

In addition to negotiating with candidates for membership, the European Community is conducting talks with non-candidate European countries seeking "special ties" with the Common Market. Among them are Austria, Switzerland, and Sweden--states which, although similar to the EC members in political and economic stature, have problems in coming to terms with Community objectives and methods because of their neutrality. The nature of the neutrals' individual problems differs, but in general these states share a concern over maintaining the credibility of a neutrality they fear could be compromised were they to participate in decision-making within a supranational organization. On the other hand, they fear the economic consequences of being shut out of a Community expanded to include their major European Free Trade Association (EFTA) partners. The Community, for its part, is anxious to find arrangements with the neutrals that will not hamper its own movement toward political unity, but also will not be so cumbersome as to interfere with its decision-making processes. The exploratory talks now under way with the neutrals will seek to resolve ambivalent attitudes on both sides. At the moment no

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one has a very clear idea of how ultimate arrangements between the Community and the neutrals will look. The Soviets, meanwhile, may wonder what impact a Community flexible enough to accommodate the neutrals might have on Eastern European countries; and the US has an interest in preventing any dilution of the political content of Community development, while at the same time keeping to a minimum the extension of preferential trading arrangements which have no prospect of increasing political unity.

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### Background

1. Switzerland, Sweden, and Austria are now seeking in negotiations with the Community to determine the form and content of their future relationship to the Common Market. Both the Community and the neutrals hope that any arrangements they can devise will not lead to the reinstatement of trade and tariff barriers between the neutrals and their former EFTA partners should Britain, Ireland, Denmark, and Norway be admitted to the EC. Moreover, the neutrals hope that their exports will have access to the EC market on terms not markedly less favorable than if they were to become full members.

2. On both sides, however, there are important and possibly overriding political limitations on how these objectives can be achieved. The neutrals want whatever arrangements they enter into to leave their neutrality credible. The Community, for its part, does not want special arrangements to jeopardize its decision-making process nor to impede its evolution toward politically effective unity. As the EC indicated in the statement read at the opening of talks with each of the EFTA non-candidates: "the Community considers that in seeking solutions to the problems raised, the autonomous decision-making power of the enlarged Community, its common policies, the efficiency of its functioning and its prospects of development should be completely safeguarded."

3. A Commission official recently said that to fit the neutrals into the Common Market on mutually acceptable terms will be like trying to square the circle. Both because of their economic and political stature and because of their neutrality, the neutrals cannot easily accept arrangements that would subordinate them to decisions made by the full members of the Community and its institutions. But the greater the neutrals' claims to equality in the relationship, the more difficult it is to satisfy the conditions laid down by the Community.

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4. In the communiqué issued in The Hague following the meeting of heads of state and of government of the Six in December 1969, the states applying for membership in the Communities were characterized as those accepting the Community treaties, their political objectives, and the decisions taken since the entry into force of the treaties. For those countries which could not or would not meet these qualifications, the Six held out the possibility of "special ties," however, and offered to discuss with them "their position in relation to the Community." Despite the Community's hopes that the neutrals would themselves define the form of the relationship they sought, the three have taken full advantage of this open-ended invitation. In fact, in their initial presentations in November, the neutrals expressed a strong preference for determining the commercial and economic content of their special arrangements with the EC before the "institutional rules of procedure" (as the Swiss put it) are decided.

5. Clearly, however, movement from exploratory talks to actual negotiations cannot be made before both sides know what sort of agreement is being sought. In practical terms, this means a decision to negotiate either a trade agreement, an association arrangement (Article 238 of the Rome Treaty) "embodying reciprocal rights and obligations, joint actions and special procedures," or full membership (Article 237).

6. Although a variety of arrangements would be conceivable under each of these rubrics, none of the neutrals has definitely chosen to opt for any one of them. The three take their neutrality seriously and they clearly are aiming for the greatest economic advantage at the smallest cost in their political sovereignty. In addition, each has reasons peculiar to its own situation for not wanting to face head-on the substantial political problems entailed in collaboration with the Community.

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7. On the one hand, the neutrals have felt encouraged by the lack of progress among the Six toward a more meaningful political union, competent in foreign and defense as well as economic policies. Also, the movement toward detente in Europe, they seem to feel, has made their neutrality appear a more constructive factor in this prospective coming together. In this regard, they note that the Hague communiqué stated that collaboration within the Community should in no way impede efforts toward detente and broader contacts in Europe as a whole. Moreover, the day the neutrals opened their talks with the Six, West German Foreign Minister Scheel emphasized at a press conference in Brussels--in his capacity as EC Council president--that the neutrality of the three constituted an advantage for the rest of Europe.

8. On the other hand, the neutrals are fully aware that the Community is fundamentally political in character, that it involves the progressive abandonment of national prerogatives to the supranational level in certain matters of economic and commercial policy, and that Community law takes precedence over national law in areas where the Community treaties apply. They also must recognize that a functioning and active Community is increasingly dependent on development of its own "constitutional" system and that the benefits they seek from their arrangements with it will depend ultimately on the Community's ability to function--an ability which could be hampered by their desire to be, as it were, closely associated at arms' length. Yet, because they cannot subordinate their own policy-making machinery to that of the Community, they are forced to seek special consultative arrangements or agreements derogating from the automatic application to them of Community policies. Such special arrangements might ultimately constrict or deny the Community's own autonomy.

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Austria

9. In his presentation of Austria's views to the Community on 10 November 1970, Foreign Minister Kirchsclaeger agreed to the condition laid down by the Six that arrangements made with the non-candidates for membership should respect the Community's commitments under GATT Article XXIV, which permits preferential agreements if they lead to the formation of a customs union or free trade area. He thus agreed that any accord should lead to the removal of all trade barriers, quantitative restrictions, and similar obstacles to trade. With regard to agriculture, however, he alluded to "particularly difficult problems" and spoke of achieving free movement of such goods "at a suitable juncture." Vienna is also interested in technical and economic cooperation outside the trade sector and, specifically, in "forms of closer cooperation" in economic planning and monetary policy.

10. Nevertheless, Kirchsclaeger said, Austria's neutrality would imply non-participation in any Community action vis-a-vis third countries if these actions had other than an economic basis. Moreover, in times of grave international tension or of armed conflict, Austria would have to have the right to suspend certain or all obligations of its agreement with the EC, and under agreed procedures, even to denounce it.

11. Austria's permanent neutrality has its basis in a constitutional law of 1955. However, Austria's agreement to declare its neutrality was in fact a condition of Moscow's signing the Austrian State Treaty ending the four-power occupation. The political basis of Austria's problems with respect to European integration is thus quite different from that of its neutral Western neighbor. Switzerland is no longer surrounded by hostile great powers, and considerations deriving from its federalism and attributes of direct democracy come to the foreground when it contemplates links with the Community. Austria's situation, on the other hand, is that of a state located between NATO and Warsaw Pact countries, whose "independence" is strongly valued by

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Moscow. Although the State Treaty does not prescribe neutrality, and Austrian leaders frequently assert their sole right to interpret Austrian neutrality, Vienna is sensitive to Soviet opinion. The State Treaty's vaguely worded "anti-Anschluss" article, moreover, provides the Soviet Union a frequently used pretext for admonitions against arrangements with the EC which it claims would be tantamount to German "hegemony" in Austria.

12. The Soviet Union's attitude is the major reason why Vienna prefers to defer discussion of the political structure of its eventual relationship with the Community, just as it hopes that moving simultaneously with the other neutrals would ease its problem with the Soviets. The Soviet consideration also provides the rationale for Vienna's interest in a free-trade area type of solution to ties with the Community. At least Vienna wants a solution that will not interfere with its freedom of action in trade with the Communist bloc. Soviet pressure is likewise in the background of Vienna's demands for independence within the eventual decision-making machinery of an arrangement.

13. The difficulty of squaring this particular circle was evident in the abortive association negotiations of 1962-68 when the Community and Austria went to near fantastic lengths to devise policy and judicial mechanisms that would preserve each side's freedom of action. It may be that in Austria's case, in particular, definitive arrangements with the Community will have to await a closer approximation to general detente in Europe than is present today. Meanwhile, hopeful as always, Vienna would like to believe that Bonn's Ostpolitik will gradually bring the Soviet Union into greater contact with the Community and thus make Moscow less likely to criticize Austrian ties.

14. Separate from the talks on special ties, the Community has recently begun to negotiate a "partial, interim commercial agreement" with Austria. Neither side appears very sure of exactly what relationship this agreement, if it can be successfully negotiated, will bear to the "global" arrangements Vienna is seeking together with the other

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EFTA members. It could be implemented prior to the latter arrangements and constitute the first step toward a customs union or, more likely, a free trade area.

Switzerland

15. In March 1970 a Swiss foreign office official stated that his government "could not accept the Rome Treaty with all its implications, nor, on the other hand, could it maintain the status quo." This position was amply reflected in Switzerland's presentation to the Six in November.

16. Switzerland's heavy reliance on trade with the EC argues for maintaining and improving the market for Swiss goods as the Community expands and develops. However, a bid for full membership is unrealistic at this time because of existing legal and political bars that are inherent in Switzerland's permanent and internationally recognized neutrality. One of these factors is Swiss federalism, which gives the cantons responsibility for handling a wide variety of problems commonly under the jurisdiction of central governments in other European states. Another is the Swiss-style direct democracy, which, among other things, means that any measures of a permanent character must be submitted to popular vote. Still another is that legislation can be initiated directly by the people.

17. Despite these factors, Swiss attitudes toward European integration have evolved considerably in recent years, with some elite opinion indeed advocating full membership in the Community. But given the sizable conservative sentiment in Switzerland, recently demonstrated in the outcome of several referenda not unrelated to Community policies, the federal government no doubt feels it will have its hands full just in trying to obtain approval for the more limited arrangements it believes are necessary.

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18. Foreign Minister Graber nevertheless stated in Brussels that his government did not want "to limit too much from the start the range of possible solutions" to the problems of Switzerland's participation in European integration. He foresaw a dismantling of nearly all the barriers to trade between Switzerland and the EC--in conformity with GATT rules authorizing preferential agreements--but also alluded to the necessity of safeguards for Swiss agriculture, which is heavily protected. Switzerland wants extensive cooperation in fields such as insurance, rights of mutual establishment of enterprises, technical barriers to trade, as well as in eliminating such sources of distortion of competition as cartels and state subsidies. Also the Swiss seek cooperation in the economic and monetary areas with which the Community is attempting to come to grips in its projected monetary union.

19. The Swiss maintain that the special relations they seek should not adversely affect the decision-making mechanisms of the enlarged Community, and they say they want to participate actively in decisions within the limits set by their neutrality and political institutions. Neutrality, however, would require that Bern negotiate and conclude tariff and trade agreements with third countries on its own and that Switzerland appear in its own name in international economic organizations. These requirements would dictate a preference for a free trade area rather than a customs union, which has its own external tariff wall. They would also prevent Switzerland's participation in the Community's common commercial policy.

20. When the Swiss claim that there are "many modalities of cooperation" for the participation they seek, they presumably have in mind legal conventions such as the draft European Patent Convention or international codes under OECD or Council of Europe auspices. From a constitutional point of view, the Swiss would have trouble acceding to

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a convention such as the Rome Treaty, which has no abrogation clause. Nevertheless, there is evidence in some public discussions of integration problems that the Swiss are aware that an agreement with the Community at this time would only be a first step to a deeper involvement. Indeed, even Graber's Brussels presentation refers to "an arrangement which can be developed as is called for by the dynamism of modern economy."

### Sweden

21. From a constitutional point of view, neutrality is less a bar to Swedish membership in the Community than it is for Austria or Switzerland. Swedish neutrality is neither constitutionally established nor internationally guaranteed. It is nevertheless firmly anchored in tradition and popular feeling and plays a major role in the arguments of all factions, even those favoring the government's course of seeking as comprehensive an arrangement as possible with the community.

22. As have the other neutrals, Sweden has left open the form of the relationship it seeks. This is, in a sense, an "advance" from its original 1962 application for association, resulting in part from the realization that association would amount to satellite status and also perhaps from a belief that, as the Swedish ambassador to Washington said last June, "the idea once popular that the Common Market would develop into a political federation seems dead." Such a belief was especially prevalent during the ascendancy of Gaullist attacks on supranationalism.

23. Tactical considerations also play a part. Even among those groups not completely opposed to close ties with the EC, opinion is divided on their nature. This is especially true within the youth organizations of Prime Minister Palme's own Social Democrats and even among the bourgeois parties. Palme, for his part, probably reasons that a certain amount of ambiguity in the government position may hold down domestic political debate. In fact,

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this ambiguity has markedly increased since Palme's loss of a parliamentary majority in the September 1970 elections. In seeking a postponement of any decision on the nature of Swedish links to the Community, moreover, Sweden obviously hopes--as the US Embassy has pointed out--that discussion of economic subjects will reveal such extensive intermingling of Danish-Norwegian interests with those of Sweden that there will be general agreement on the need for some arrangement between Sweden and an EC enlarged to include these countries. Sixty percent of Sweden's exports currently go to the countries which would constitute the future Community of ten.

24. With all its studied ambiguities, the Swedish presentation in Brussels still went further than that of Austria or Switzerland in indicating acceptance of major features of the Community. Thus Stockholm is clearly opting for a customs union relation at the least, and it would have few problems in adapting to the common agricultural policy.

25. Sweden nevertheless reasserted the continuing validity of its declarations to the Community made in 1962 and 1967 emphasizing the obligations of a neutral state and stated specifically that it "cannot participate in such forms of cooperation on foreign policy, economic, monetary and other matters which, in our judgment, would jeopardize our possibilities to pursue a firm policy of neutrality." Further, there are "limits to Sweden's possibilities to accept a transfer of the right of decision-making from national to international institutions within the framework of an economic and monetary union."

26. Inasmuch, however, as Sweden also recognizes the importance of cooperation on all the non-tariff aspects entailed in economic integration and has made clear that it will not be satisfied with a mere commercial agreement, there is some mystery about how Stockholm believes policy coordination can be achieved. One possibility that arises from

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the emphasis in Sweden's presentation on the many areas in which the objectives of Swedish and Community policies already coincide is that Sweden envisages parallel adoption under Swedish law of Community regulations. This might be an answer to the problem of legal sovereignty, but it would seem still to leave open the crucial political question of adequate participation in decision-making.

27. In summary, pro-integration thinking in Sweden has been evolving toward a bid for full membership, albeit with "neutrality reservations." Second thoughts, however, about how non-political even the present Community is were inspired by the Davignon Report, which set the guidelines for the recently established foreign policy consultations among the Six, and by the Werner Group recommendations for an economic and monetary union by 1980. Moreover, EC Commissioner Deniau's recent visit to Stockholm served to throw cold water on Sweden's interpretation of full membership. Deniau told the Swedes that economic integration would be followed, in the long term, by political integration; thus, adherence to the Community treaties "requires a certain psychological preparedness to accept the ideas of integration in their entire breadth." Although the Swedish Government may still hope ultimately to reach some agreement "approximating" membership, it probably is aware that it may have to ask for a customs union in which decision-making would be handled, as it is in the Community's association arrangements, in a joint Council.

#### Member-state and Commission Attitudes

28. There is a sincere desire in all Community circles to affiliate the EFTA non-candidates for membership, including the neutrals, with an expanded Common Market. There is also a consensus on what is undesirable--i.e., arrangements which would detract from Community cohesion and greatly complicate decision-making. For example, none of the members, and certainly not the Commission, can welcome the prospect of having to manage a different type of linkage for each neutral, each type having a distinct

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apparatus for policy coordination. Nevertheless, there are differences among the Six about what may be acceptable. Some of these differences are founded in economic interest, but some reflect basically different political attitudes toward the Community.

29. Majority opinion within the Community almost certainly would not share the position taken by some Swiss and Swedes that neutrality should be no obstacle to membership as long as the Six practice different and even divergent foreign policies and that it should be unacceptable only on the condition that the Community was itself on the way to political union. Most officials would hold with a viewpoint, represented most strongly by the Commission and the Dutch, that tends to see less importance in the present state of the Community than in the possibilities for future development, which, officials say, can be safeguarded by demanding more than lip service to the political objectives set down in the Community treaties.

30. In contrast to the view centering on the danger to the Community of including members that enter "with reservations," French officials seem more worried about the dangers of "diluting" the Community with a proliferation of association arrangements. They have accordingly encouraged Swedish and Swiss applications for full membership. In addition, the French seem to fear that the expected non-participation of the neutrals in the common agricultural policy would tend to transform the Community into a free trade area. Paris' attitude, however, is probably also influenced by mixed political motives. One French official has argued with the US Embassy that Swedish membership, even with a neutrality reservation, would in the long term overcome Swedish neutralism. Whether or not this is a sincere argument (it is the direct opposite to Dutch Foreign Minister Luns' often expressed disdain for contaminating the Community by Swedish neutrality) there may indeed be something to it. Given French attitudes toward Community supranationalism, the French position on full membership

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for Sweden and Switzerland may also reflect a more immediate French aim of gaining presumed allies against strengthening the Community's central institutions.

### Outlook

31. In mid-December 1970 the Commission began the first round of bilateral exploratory discussions with each of the three neutrals. Two more rounds will probably take place before June 1971 and, in the meantime, joint working parties will pursue in detail the questions raised at the more formal talks. The Commission now hopes to report to the Council on the exploratory talks in May and the Council will have to discuss these results in the context of the status of the enlargement negotiations at that time. A decision on opening formal negotiations is thus not likely before mid-1971.

32. As a French official observed recently in a conversation with the US Embassy, "the landscape is strewn with unacceptable proposals for the EFTA neutrals." Until the situation is--perhaps--clarified by the exploratory discussions, it would seem safest to assume that ultimately the Community will be faced with choosing the least unacceptable ones. What the Community wants will presumably be decisive inasmuch as, if enlargement of the Community by addition of the four membership candidates seems assured, the EFTA non-candidates will be under great pressure to reach some agreement of their own. Nevertheless, some compromises with the decision-making efficiency of the eventual arrangements seem inevitable if only because uniformity is unlikely. It is quite possible that some or all of the agreements may have aspects which make them dubious on GATT grounds, although presumably if that is the case their interim nature will be stressed.

33. In a longer term perspective, any agreements reached with the neutrals will be evolving relationships. The evolution will depend on over-all political factors in Europe influencing the development of East-West détente, but also on the "costs

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to some kind of "association" will almost surely be dissatisfaction with inadequate participation in decision-making. The Community, for its part, will probably hope that its own enlargement to ten members will provide enough economic strength and sufficient institutional reinforcement that arrangements with non-members will not prove a distraction, and that the Community system will be the pole of attraction for the neutrals.

34. The Soviet Union is not favorably disposed to the expansion of the Common Market's influence, either through enlarged membership or preferential arrangements. Thus it tends to regard adherence by the neutrals in whatever form as adding to the Community's power and reducing neutralist sentiment in Western Europe, rather than as potentially weakening Community cohesion. Moreover, the Soviets may also wonder whether a Community that was flexible enough to bring in the neutrals would not look alluring to Eastern Europe. The USSR would probably be more satisfied the closer the neutrals' arrangements come to mere commercial agreements.

35. For the US, the problem of the neutrals' accommodation by the Community is directly related to the rationale for US support of European unity. The major reason for this support has been to encourage the development of the Community toward political and defense unity. Such development could be compromised if the neutrals gained membership without accepting the EC's political goals. The US also has an interest in an efficient Community, whose decision-making is not adversely affected by demands from countries with "special ties" claiming rights of prior consultation or participation. Should the Community, for similar reasons, and the neutrals themselves out of concern for their independence, reject ties that have political overtones, however, the result may be arrangements that conflict with another US objective: the prevention of preferential trading ties having no immediate prospect for increasing political unity. This dilemma seems inescapable in the short run. Over a longer period, it remains to be seen whether or not the Community can elicit from the neutrals a full commitment to its goals.

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